GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2052
ANSWERED ON:12.12.2008
INVESTMENT IN FOREIGN BANKS AND INSURANCE COMPANIES
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has made any assessment regarding the risk factor of investment made by customers in Foreign Banks, Insurance Companies and Real Estate Companies in view of the crisis in U.S.A.; and

(b) if so, the findings thereof and the steps taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b) : Yes, Sir. Following the sub-prime crisis in USA, steps have been taken to monitor the impact of the banking crisis of USA on Indian banks on a continuous basis.

Against the backdrop of the sub-prime crisis, the Reserve Bank of India (RBI) initiated a series of meetings with fifteen major banks in the month of September 2007, to assess its impact on banks in India and take necessary remedial measures. It was observed that none of the Indian banks and foreign banks` (operations in India) with whom discussions were held, had any direct exposure to the sub-prime mortgage market in the USA and other markets, and no direct impact could be seen. However, a few banks had mark-to-market (MTM) losses in their overseas operations. Some of the Indian banks with overseas operations, though not having any direct exposure to the US sub-prime markets, invested in certain Collateralised Debt Obligations (CDOs) / bonds, which had a few underlying entities having sub-prime exposure.

The Indian joint venture insurance units continue to be quite sound and have not been affected by the developments both in and outside India. All the companies have robust solvency margins and there are no regulatory concerns on the ability to meet policy holders claims as on date.The Insurance Regulatory and Development Authority is closely monitoring the position.

Further, with the objective of monitoring the impact of the sub-prime crisis on Indian banks and their overseas subsidiaries on a continuous basis, RBI has placed a separate mechanism for reporting, on a monthly basis, the exposure of Indian banks via their overseas operations and subsidiaries towards credit derivatives and other investments, and the related MTM losses. Securities and Exchange Board of India (SEBI) is also continuously reviewing the situation in consultation with the stock exchanges and the depositories. RBI - SEBI Technical Committee is closely monitoring the developments in the global financial markets and its impact on the Indian markets.